

**SOUTH CAROLINA DEPARTMENT OF COMMERCE
COLUMBIA, SOUTH CAROLINA**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1999

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

January 31, 2000

The Honorable James H. Hodges, Governor
and
Mr. Charles S. Way, Jr., Secretary
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce for the fiscal year ended June 30, 1999, was issued by Rogers & Laban, P.A., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'Tom Wagner', written over a horizontal line.

Thomas L. Wagner
State Auditor

SOUTH CAROLINA DEPARTMENT OF COMMERCE

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INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Department of Commerce (the "Department") as of and for the year ended June 30, 1999, as listed in the table of contents. These financial statements are the responsibility of the South Carolina Department of Commerce's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards, and standards for financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Department's enterprise funds, which are comprised of the Division of Public Railways and Division of Savannah Valley Development, which should be included in order to conform with generally accepted accounting principles. The omitted funds have assets, liabilities, revenues, and expenses as follows as of and for the years ended:

	December 31, 1998 Public Railways	June 30, 1999 Savannah Valley
Assets	\$30,789,075	\$22,509,934
Liabilities	7,497,031	17,530,942
Revenues	5,566,293	1,538,348
Expenses	3,002,323	2,599,710

As described in Note 1, the financial statements of the South Carolina Department of Commerce are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Commerce, excluding its enterprise funds noted in the above paragraph.

In our opinion, except for the effect on the financial statements of the omissions described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the South Carolina Department of Commerce as of June 30, 1999, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

The year 2000 issue required supplementary information on page 25 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. Further, we were unable to apply to the information certain procedures prescribed by professional standards because of the unprecedented nature of the year 2000 issue; its effects; the fact that authoritative measurement criteria regarding the status of remediation efforts have not been established; the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter; and, because insufficient audit evidence exists to support the disclosures. In addition, we do not provide assurance that the Department is or will become year 2000 compliant, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which it does business are or will become year 2000 compliant.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Department taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 7, 2000 on our consideration of the South Carolina Department of Commerce's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Rogers & Lalan, PA

Columbia, South Carolina
January 7, 2000

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1999

	Governmental Fund Types		Account Groups	
	General	Special Revenue	General Fixed Assets	General Long-Term Debt
ASSETS AND OTHER DEBITS				
Cash on hand	\$ 300	\$	\$	\$
Cash on deposit with State Treasurer	8,940,726	61,838,819		
Cash in foreign bank accounts	146,232			
Accounts receivable	2,090			
Due from other State Agencies	19,757	422,847		
Due from General Fund of the State	607,074			
Due from Federal Government		983,981		
Balance of state capital improvement bond proceeds available	2,651,261			
Deposits held for rental property	7,055			
Interest receivable		6,409		
Inventories	27,678			
Notes receivable		533,333		
Property and equipment			11,075,130	
Amount to be provided for retirement of general long-term debt				822,615
Total Assets and Other Debits	\$ 12,402,173	\$ 63,785,389	\$ 11,075,130	\$ 822,615
LIABILITIES, FUND EQUITY, AND OTHER CREDITS				
LIABILITIES:				
Accounts payable	\$ 1,455,768	\$ 1,320,901	\$	\$
Accrued salaries and related benefits	664,101	78,039		
Deferred revenue		34,626		
Accrued compensated absences and related benefits				822,615
Total Liabilities	2,119,869	1,433,566		822,615
FUND EQUITY AND OTHER CREDITS:				
Investment in general fixed assets			11,075,130	
Fund Balances:				
Reserved for capital projects	2,651,261			
Reserved for inventories	27,678			
Reserved for notes and interest receivable		400,000		
Reserved for deposits held for rental property	7,055			
Reserved for restricted purpose funds carried forward	1,814,757			
Reserved for appropriations carried forward	4,437,091			
Reserved for special events	268,064			
Reserved for State Economic Development projects		59,035,548		
Reserved for Admissions Tax projects		946,765		
Reserved for Aviation Fuel Tax projects		1,286,705		
Reserved for State Rural Infrastructure		682,805		
Unreserved:				
Undesignated	1,076,398			
Total Fund Equity and Other Credits	10,282,304	62,351,823	11,075,130	
Total Liabilities, Fund Equity and Other Credits	\$ 12,402,173	\$ 63,785,389	\$ 11,075,130	\$ 822,615

See accompanying Notes to Financial Statements.

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 1999**

	General	Special Revenue
REVENUES:		
State appropriations	\$ 13,957,619	\$
Highway taxes for State Economic Development		18,000,000
Federal grants		31,408,549
Allocations from other State Agencies	165,500	
Donations and contributions	339,500	
Enterprise Zone Act fees	272,500	
Admissions tax		753,217
Sale of publications	79,395	
Aircraft rental	57,464	
Sale of goods and services	107,744	
Registrations	38,341	
Interest income	15,536	41,989
Airport inspection fees	8,127	
State Aviation Fund		640,434
Miscellaneous revenue	48,948	
State rural infrastructure job development fees		682,805
TOTAL REVENUES	<u>15,090,674</u>	<u>51,526,994</u>
EXPENDITURES:		
Administration and Support:		
Office of the Secretary	537,555	
Financial services	628,677	
Personnel and operations	3,022,775	
Programs and Services:		
ARC Grant funds	32,578	33,361
Export services	654,124	
Business retention and expansion	111,895	
Business recruitment	2,305,938	
Marketing	2,589,252	
Prospect Research	515,872	
Information management	533,449	
Film Office	6,853	
Communications and advertising	276,974	
Legal services and communications	268,150	
Rural and community development	643,119	
Economic development set-aside	1,410,247	20,395,266
Enterprise Zone	228,118	
Admission Tax		5,550
Community grants	206,837	30,993,173
Strategic Planning	162,277	
Business visitation	215,612	54,137
Flight operations	1,416,673	
Airport maintenance	542,390	114,165
Recycling Marketing Development Council	184,394	
Civil Air Patrol	78,360	
Technology Division	181,927	117,500
Allocation to other entities for airport capital improvements	880,048	
Special items:		
Technology Council	200,000	
State Aviation Miscellaneous Operations		208,221
TOTAL EXPENDITURES	<u>17,834,094</u>	<u>51,921,373</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,743,420)	(394,379)

See accompanying Notes to Financial Statements.

**COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 1999**

	<u>General</u>	<u>Special Revenue</u>
OTHER FINANCING SOURCES (USES):		
Operating transfers between funds	\$ 360,000	\$ (360,000)
Remitted to the General Fund of the State	(7,800)	
Indirect cost recovery remitted to General Fund of the State		<u>(95,912)</u>
TOTAL OTHER FINANCING SOURCES (USES)	352,200	(455,912)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(2,391,220)	(850,291)
FUND BALANCES - BEGINNING OF YEAR	<u>12,673,524</u>	<u>63,202,114</u>
FUND BALANCES - END OF YEAR	<u>\$ 10,282,304</u>	<u>\$ 62,351,823</u>

See accompanying Notes to Financial Statements.

**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL - ALL BUDGETED FUNDS
FOR THE YEAR ENDED JUNE 30, 1999**

	Budgetary General Fund			Other Budgeted Funds			Total Budgeted Funds		
	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)	Legal Basis Budget	Actual on Budgetary Basis	Variance Favorable (Unfavorable)
Personal services	\$ 6,438,069	\$ 6,148,366	289,703	\$ 1,606,748	\$ 1,412,615	\$ 194,133	\$ 8,044,817	\$ 7,560,981	\$ 483,836
Employer contributions	1,349,343	1,349,259	84	402,939	326,867	76,072	1,752,282	1,676,126	76,156
Other operating expenses	5,904,961	5,639,448	265,513	2,736,787	1,467,021	1,269,766	8,641,748	7,106,469	1,535,279
Allocations to:									
State agencies	158,394	158,394	0	118,000		118,000	276,394	158,394	118,000
Localities	396,975	328,236	68,739	49,877,178	45,268,952	4,608,226	50,274,153	45,597,188	4,676,965
Other entities	91,803	91,802	1	5,657,634	6,292,583	(634,949)	5,749,437	6,384,385	(634,948)
Special Items:									
Technology Council	200,000	200,000	0				200,000	200,000	0
State Aviation Miscellaneous Operations				210,000	208,221	1,779	210,000	208,221	1,779
Advisory Coordinating Council							5,533,724	1,530,372	4,003,352
Economic Development	5,533,724	1,530,372	4,003,352				165,000		165,000
Staff Development Program	165,000		165,000				200,000		200,000
SC Export Consortium	200,000		200,000						
Totals	\$ 20,438,269	\$ 15,445,877	\$ 4,992,392	\$ 60,609,288	\$ 54,976,259	\$ 5,633,027	\$ 81,047,555	\$ 70,422,136	\$ 10,625,419

See accompanying Notes to Financial Statements.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of South Carolina Department of Commerce (the Department) were prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Department's accounting policies are described below.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government/entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government/entity. The primary government/entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

1. Determines its budget without another government's having the authority to approve and modify that budget.
2. Levies taxes or set rates or charges without approval by another government.
3. Issues bonded debt without approval by another government.

Otherwise, the organization is fiscally dependent on the primary government/entity that holds one or more of these powers.

The Department is responsible for the stimulation of economic development activity, management of business affairs of the Division of Savannah Valley Development, development of public airports and air transportation systems, and development of public railways systems. The Department is an agency of the State of South Carolina established by Section 1-30-10 and 1-30-25 of the Code of Laws of South Carolina.

The Department was created by the Government Restructuring Act of 1993 which became effective on July 1, 1993. The Governor appoints the director of this cabinet level department. The agency consists of a combination of the former agencies of the State Development Board, Aeronautics Commission, Coordinating Council for Economic Development, Savannah Valley Authority, and the South Carolina Public Railways Commission. Management has elected to exclude the Division of Public Railways and the Division of Savannah Valley Development from this reporting entity. Separate audited financial statements are available for each of the excluded divisions. The funds and account groups of the Department, including the two divisions excluded from this report, are included in the Comprehensive Annual Financial Report of the State of South Carolina, the primary government. Copies of the reports for the two excluded divisions can be obtained from the Department at P.O. Box 927, Columbia, South Carolina, 29202.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)****Reporting Entity (Continued)**

The Department reporting entity is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriations Act authorizes expenditures from the General Fund of the State and authorizes expenditure of total funds.

The laws of the State and the policies and procedures specified by the State for State agencies are applicable to the activities of these three divisions. The reporting entity operates somewhat autonomously, but lacks full corporate power. The accompanying financial statements present the financial position and results of operations and note disclosures of only those transactions of the State of South Carolina that are attributable to the Department reporting entity defined above.

Fund Accounting

The Department uses funds to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions, or limitations. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined in fund types. Accordingly, all financial transactions in the combined statements have been reported by fund type. An account group is a financial reporting device designed to provide financial accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The Department has only one fund category, governmental fund types. The Department reports its activity in two types of governmental fund types, the general fund and the special revenue fund.

Governmental Funds

Governmental funds are used to account for the government's general government activities. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the differences between the assets and liabilities is the fund balance.

General Fund – The general fund accounts for all activities except those required to be accounted for in another fund. Major revenue sources include the annual state appropriation as approved by the General Assembly, contributions for special marketing events, State Capital Improvement Bond proceeds for grants to municipalities for airport improvements, plane and space rental income, charge for services, sales of goods and cost reimbursements. The revenues are used for general ongoing governmental services such as administration, maintenance, aeronautics and economic program development and service.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**Governmental Funds (Continued)**

In April, 1995, the Enterprise Zone Act of 1995 was enacted which gave the Coordinating Council for Economic Development certain powers and duties. Among the powers given to the Coordinating Council for Economic Development is the power to charge an application fee not to exceed \$2,000 to qualifying businesses applying for the tax incentives allowed under the Act. The application fees collected by the Coordinating Council for Economic Development must be expended for administrative, data collection, credit analysis, cost/benefits analysis, reporting and any other obligations pursuant to the Act. The Act allows for the carryforward of unexpended funds collected under the Act to the next fiscal year to be expended for the same purpose.

Special Revenue Fund - Special revenue funds generally record expenditures of revenues that are restricted to specific programs or projects. Revenues are derived from federal and private grants which are restricted for certain purpose. In addition, special fund revenues include proceeds related to the State Economic Development account established by South Carolina Code of Law Section 12-27-1270. This account accumulates the first \$18 million generated from the tax levied in Sections 12-27-1210, 12-27-1220, 12-27-1230, and 12-27-1240. The proceeds are to be used for economic development projects approved through the Coordinating Council for Economic Development. The Coordinating Council for Economic Development establishes project priorities and authorizes all project expenditures. The special revenue fund also includes admissions tax revenue authorized by Section 12-21-2423. An amount equal to one-fourth of the license tax on admissions to major tourism facilities collected by the Department of Revenue is remitted to the Department. The Coordinating Council for Economic Development approves expenditures of these funds specifically for infrastructure development grants. This fund also includes the Aviation Fuel tax which was authorized by Section 55-5-280 which provides for "all monies received from the licensing of airports, landing fields or air schools, the tax on aviation gasoline and fees and other licenses under this chapter. . . to be credited to the "State Aviation Fund" to be used for airport improvements. Also included beginning July 1, 1998 are job development fees received by the Department authorized by Section 12-10-85 to provide financial assistance to local government for under the State Rural Infrastructure Fund for training cost and facilities; improvements to regionally planned public and private water and sewer systems; improvements to both public and private electricity, natural gas, and telecommunications systems; and fixed transportation facilities.

Account Groups

The Department uses account groups to establish control over and accountability for its general fund assets and the unmatured principal of its long-term debt.

General Fixed Assets Account Group - General fixed asset acquisitions require the use of governmental fund financial resources and are recorded as expenditures but they are not assets of any fund but of the governmental unit as an instrumentality. Purchased equipment and building additions are recorded as expenditures of the general fund and special revenue fund upon acquisition and simultaneously capitalized at acquisition cost in the general fixed asset account group. Equipment additions which are obtained through installment agreements are capitalized in the general fixed assets account group in the year of acquisition at their total costs, excluding interest charges. Payments of principal and interest on such agreements are recorded as equipment expenditures within other operating expenditures within the applicable subprogram when the installment agreement payments are made.

The policy of the Department is to capitalize items costing \$1,000 or more, with a minimum expected useful life of four years. Buildings and equipment are valued at historical cost of the Department or the predecessor agency. Assets transferred from another agency are recorded at that agency's acquisition cost. Donated assets are recorded at fair market value at the date of the gift.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Account Groups (Continued)

In accordance with generally accepted accounting principles for governmental entities, a provision for depreciation of general fixed assets is not recorded.

The Aeronautics Division uses state capital improvement bond proceeds to construct infrastructure at airports throughout the State of South Carolina. The Department does not capitalize these assets and treats the issuance of these proceeds as a flow-through to revitalize and stimulate the State's airports and economy. Certain infrastructure assets at the Columbia Metropolitan Airport are leasehold improvements which are paid through permanent improvement funds and are not capitalized.

General Long-Term Debt Account Group – This account group records the outstanding balance of any unmatured general long-term debt obligation which is to be liquidated from governmental fund resources. Such liabilities include the compensated absence liability.

Basis of Accounting

All governmental funds are accounted for using a current financial resource measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The financial statements are presented on the modified accrual basis for measuring financial position and results of operations by fund type.

Governmental Fund Type – Revenues and expenditures are recognized on the modified accrual basis of accounting. Revenues and other fund financial resources are recognized in the accounting period in which they become available and measurable to finance expenditures of the current fiscal period. Federal reimbursement type grants are recorded as revenue when the related expenditures are incurred. Expenditures are recorded when the related fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due. Further, inventory items are reported as expenditures when consumed and expenditures for insurance and similar services benefiting more than one accounting period are not allocated among accounting periods but are accounted for as expenditures in the year of acquisition.

Interfund Transactions

Transactions that would be treated as revenues and expenditures if they involved external organizations are accounted for as revenues and expenditures in the funds involved. Reimbursement transactions initially made by one fund that are applicable to another are recorded as expenditures in the reimbursing fund. All interfund transactions except loans, quasi-external transactions, and reimbursements are transfers. All transfers except nonrecurring or nonroutine permanent transfers of equity are reported as operating transfers in the period in which the interfund receivable or payable arises.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**Budget Policy**

The Department is granted an annual appropriation for administrative operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of summary object of expenditure appropriations by program within agency within budgetary fund. Budgetary control is maintained at the summary object of expenditure level of the agency entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist. The Department separates this budget into three divisions within the reporting entity. The budget for the Division of Savannah Valley Development has been excluded from this report. Agencies may request transfers of appropriations among summary object categories and/or among programs within the same budgetary fund.

Transfers of funds may be approved by the State Budget and Control Board under its authority or by the agency as set forth in Appropriation Act Proviso 72.14 as follows: Agencies are authorized to transfer appropriations within programs and within the agency with notification to the Division of Budget and Analyses and the State Comptroller General. No such transfer may exceed twenty percent of the program budget. Transfers from personal services accounts or from other operating accounts may be restricted to any level set by the Board.

Agencies may charge vendor, interagency, and interfund payments for fiscal year 1999 to fiscal year 1999 appropriations in July 1999. As provided by Proviso 72.48 of the 2000 Appropriations Act regarding unexpended funds at the current fiscal year-end, up to 10% of original State General Fund appropriations to an agency may be carried forward and expended in the next fiscal year. Any unexpended State General Fund monies as of June 30th in excess of 10% of original appropriations automatically lapse to the General Fund of the State on July 31 unless authorization is received from the General Assembly to carry over the funds to the ensuing fiscal year. State law does not require the use of encumbrance accounting.

State law does not precisely define the budgetary basis of accounting. The current Appropriations Act states that the General Assembly intends to appropriate all monies to operate State government for the current fiscal year. The State's annual budget is prepared primarily on the modified accrual basis method of accounting with several exceptions, principally the cash basis for payroll expenditures. Because the legally prescribed budgetary basis differs materially from generally accepted accounting principles (GAAP), actual amounts in the accompanying budgetary comparison statement are presented on the budgetary basis. A reconciliation of the differences between the budgetary and GAAP bases is presented in Note 2.

The Statement of Expenditures – Budget and Actual – All Budgeted Funds presents actual expenditures on the budgetary basis of accounting compared to the legally adopted and modified budget on a line item expenditure basis. The level of legal control for each agency is reported in a publication of the State Comptroller General's Office titled A Detailed Report of Appropriations and Expenditures for each fiscal year.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)****Cash on Deposit with State Treasurer**

The amounts shown in the financial statements as "cash on deposit with State Treasurer" represent cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies including the Department participate in the State's internal cash management pool. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertinent to the cash management pool, see the deposits disclosure in Note 4.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Department records and reports its deposits in the general deposit account at cost and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Department's special deposit accounts is posted to the Department's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated interest rate, realized gains/losses and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term highly liquid securities have an initial maturity of three months or less.

Compensated Absences

State employees are entitled to accrue and carry forward at calendar year-end a maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday leave earned for which the employees are entitled to paid time off or payment at termination. In the governmental funds, expenditures for compensated absences are recorded when payment is made. Since no funds are budgeted for compensated absences in excess of the actual amount incurred during the year, no additional expenditures are accrued as a current liability of the governmental funds. The Department calculates the gross compensated absence liability based on recorded balances of unused leave. The entire unpaid liability for the governmental funds, inventoried at current fiscal year-end salary costs and the cost of the salary related benefit payments, is recorded in the general long-term debt account group. Accumulated sick pay is forfeited upon termination, thus no accrual is required.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)****Indirect Cost Recoveries**

The receipt of indirect cost recoveries on government-sponsored programs have been included in the special revenue fund as federal grants revenue and payments of these recoveries to the State's General Fund have been recorded as other financing uses. State law requires the Department to remit these recoveries to the General Fund of the State. After January 1, 1999 federal grants and awards whose annual award is \$200,000 or less are exempted from the requirement to remit recoveries to the State General Fund.

Fund Balances

The equity section of the balance sheet is comprised of two major fund balance elements: reserved and unreserved, undesignated. Reserves either (1) satisfy legal covenants that require that a portion of the balance be segregated for a specific future use or (2) identify the portion of the fund balance that is not appropriable for future discretionary expenditures. All other current resources are shown as unreserved, undesignated on the balance sheet. The reserves for inventories; notes and interest receivable; and deposits held for rental property presented in the balance sheet are offsets to the related asset accounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. BUDGETARY REPORTING BASIS:

The financial statements prepared on the legally enacted basis differ from the GAAP basis statements. Not all of the Department's accounts in the general fund are included in the Department's total funds authorized by the General Assembly. Consequently, the statement of expenditures – budget and actual – all budgeted funds presents only those funds for which a legal basis budget was enacted. Because the contributions, interest income and related expenditures of the special events account of the general fund are unbudgeted, they are not included in the budgetary comparison statement.

Adjustments of the GAAP basis of accounting to the budgetary basis of accounting consist principally of reclassification from financial statement fund types to budgetary fund categories, reversals of payroll accruals and the related fringe benefits and removal of unbudgeted accounts. In addition, there are adjustments for changes in foreign bank balances and fuel inventory resulting from differences between the timing of expenditures on the modified accrual basis and those on the budgetary basis. Other financing uses consisted entirely of unbudgeted accounts and were related to indirect cost and other remissions remitted to the General Fund of the State. The following schedule reconciles the differences.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 2. BUDGETARY REPORTING BASIS: (CONTINUED)

	Financial Statement Fund Type		Budgetary Fund Category	
	General	Special Revenue	General Fund	Other
Expenditures on GAAP Basis	\$ 17,834,094	\$ 51,921,373	\$	\$
Fund classification:				
State appropriation	(14,185,305)		14,185,305	
Federal grants		(31,312,636)		31,312,636
Other	(3,074,810)	(20,608,737)		23,683,547
Unbudgeted accounts	(573,979)			
Change in foreign bank account balances			(177,307)	
Change in fuel inventory				(14,792)
Net accruals:				
Personal services and employer contributions			(92,493)	(5,132)
Expenditures on legal basis	\$	\$	\$ 13,915,505	\$ 54,976,259

NOTE 3. STATE APPROPRIATION:

The following represents a reconciliation of the Appropriation Act for the period ended June 30, 1999 as originally enacted by the General Assembly to appropriation revenue as reported in the general fund. The carryforwards are restricted to the intended use with the exception of the 10% carryover of State General Fund appropriations.

Original appropriations	\$ 12,970,372
Allocations by State Budget & Control Board:	
Employee base pay increase (Proviso 63C.12.)	178,754
Supplemental Appropriations from surplus 1997 – 1998 State	
General Fund Revenues:	
Part III of the 1999 Appropriation Act	
Technology Council	200,000
Part III of the 2000 Appropriation Act	
Staff Development Program	165,000
SC Export Consortium	200,000
Capital Reserve Fund Appropriation for Information Technology (June 1998 Joint Resolution R537, H4702)	151,000
Adjusted Appropriations, Budgetary Basis	13,865,126
Accrual adjustments:	
Funding for personal services and employer contributions	92,493
Accrual basis state appropriation revenue	<u>\$ 13,957,619</u>

The Coordinating Council for Economic Development receives State General Fund appropriations for special purposes only. These appropriations do not cover operating costs. The Department allocates funds from its State appropriation to cover operating cost associated with management of these special purpose State General Fund appropriations.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 3. STATE APPROPRIATION: (CONTINUED)

The \$151,000 capital reserve fund appropriation budget and expenditures were reported as "other budgeted funds" on the statement of expenditures – budget and actual – all budgeted funds. The \$151,000 was accounted for in the other operating expenses account.

The amount of State funds brought forward to fiscal year 1999 was \$6,724,143. Of the carryforward, \$5,930,699 was reported as a reserved fund balance. Under proviso 72.48, the 1998-1999 Appropriation Act allowed for a carryforward of 10% of the agency's original State General Fund Appropriation to fiscal year 1998-1999. The undesignated carryforward reported in the undesignated fund balance was \$793,444. Pursuant to a June 1995 Joint Resolution, the Department brought forward \$396,975 for airport improvements. The Department brought forward \$5,533,724 allocated to the Coordinating Council for Economic Development for economic development.

The amount of State funds to be carried over to fiscal year 2000 is \$4,992,392. Of this carryforward, \$4,437,091 is reported as reserved fund balance. Proviso 72.48 of the 1999-2000 Appropriation Act allows for a carryforward of up to a maximum of 10% of the agency's original State General Fund Appropriations to fiscal year 1999-2000. The undesignated carryforward reported in the undesignated fund balance is \$555,301. Pursuant to Parts III, IV, V and VI of the 1995-1996 Appropriations Act which allowed certain unexpended supplemental appropriations to be carried forward to succeeding fiscal years and expended for the same purposes, the Department carried forward to fiscal year 2000 \$68,739 for county airport improvements and \$4,003,352 allocated to the Coordinating Council for Economic Development for economic development. Also \$165,000 for staff development program and \$200,000 for SC Export Consortium was carried over pursuant to Part III of the 2000 Appropriations Act.

NOTE 4. DEPOSITS:

All deposits of the Department are under the control of the State Treasurer who, by law, has sole authority for investing state funds, with the exception of two foreign accounts, which are authorized by the State Treasurer.

The account classified as "Cash on deposit with the State Treasurer" in the financial statements consists of amounts in the general and special deposits accounts with the State Treasurer as part of the State's internal cash management pool. The special deposits are in a composite account that draws interest. The account classified as cash on hand consists of cash used for petty cash and change fund purposes. Cash held in foreign accounts consists of cash held by foreign banks for the Tokyo, Japan and Frankfurt, Germany offices.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1999, all State Treasurer bank accounts were fully insured or collateralized with Securities held by the State or its agent in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 4. DEPOSITS: (CONTINUED)

The Entity's deposits which are not with the State Treasurer are categorized to indicate the level of risk assumed by the entity at year end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. Category 1 includes deposits insured or collateralized with securities held by the entity/entities. Category 2 includes deposits collateralized with securities held by the pledging financial institution trust department or agent in the entity's name. Category 3 includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

All of the deposits with foreign banks are in Category 3 and the carrying amount and bank balance was \$146,232 as of June 30, 1999.

The highest balance of deposits in Category 3 during the year was approximately \$324,000.

NOTE 5. INVENTORIES:

The Department's Aeronautics Division had inventories at June 30, 1999 of \$27,678. The inventories consisted of jet and automotive fuels and is accounted for at the lower of cost or market on a first-in, first-out basis.

NOTE 6. NOTES RECEIVABLE:

The notes receivable at June 30, 1999 consisted of the following:

<p>Note receivable from the City of Charleston, an instrumentality of the State of South Carolina, due in three annual installments of \$133,333 plus interest at 5% annually, with the first installment due June 30, 1997. The payment of principal plus \$6,409 interest receivable due June 30, 1999 was received in July, 1999.</p>	<p>\$133,333</p>
<p>Note receivable from the Division of Public Railways, an enterprise fund of the Department, dated April 26, 1995, payable in five annual installments of \$200,000 plus interest at the rate provided by the State Treasurer's Office on each of the payment due dates (approximately 6%), with the first installment due June 1, 1997.</p>	<p><u>400,000</u></p>
	<p><u>\$533,333</u></p>

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 7. BALANCE OF STATE CAPITAL IMPROVEMENT BOND PROCEEDS AVAILABLE:

In the prior years, the State of South Carolina authorized funds for improvements and expansion of municipal airport facilities within the State using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the municipal entity. The Department records the proceeds as revenue in the general fund. These funds represent a type of pass-through grant to municipal entities, and are reported as allocations to other entities for airport capital improvements. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects.

The total balance receivable for the undrawn portions of the authorizations are reported in the balance sheet as "Balance of state capital improvement bond proceeds available". A summary of the balances available from these authorizations as of June 30, 1999 follows:

<u>Act</u>	<u>Total Authorized</u>	<u>Amount Drawn in Prior Years</u>	<u>Amount Drawn in Fiscal Year Ended June 30, 1999</u>	<u>Balance Authorized June 30, 1999</u>
R256 of 1991	\$1,016,250	\$812,470	\$ 56,827	\$ 146,953
111 of 1997	<u>3,000,000</u>	<u>707</u>	<u>494,985</u>	<u>2,504,308</u>
Total	<u>\$4,016,250</u>	<u>\$813,177</u>	<u>\$ 551,812</u>	<u>\$2,651,261</u>

NOTE 8. CHANGES IN GENERAL FIXED ASSETS:

A summary in changes in general fixed assets for the fiscal year ended June 30, 1999 follows:

	<u>Balance, July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance, June 30, 1999</u>
Buildings	\$2,602,038	\$	\$	\$ 2,602,038
Equipment	<u>8,220,266</u>	<u>378,356</u>	<u>125,530</u>	<u>8,473,092</u>
Total general fixed assets	<u>\$10,822,304</u>	<u>\$ 378,356</u>	<u>\$ 125,530</u>	<u>\$11,075,130</u>

NOTE 9. DUE FROM THE GENERAL FUND OF THE STATE:

The amount receivable represents funds due from the State General Fund for personal services and employer contributions of the Department consisting of salaries and the cost of related employee benefits funded by State appropriations accrued at June 30 but paid in July. By State law, these accruals are paid from funds appropriated for the next fiscal year.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 10. OPERATING LEASES:

The Department has entered into operating leases for non-state owned land, office space and some office equipment. These leases are for both foreign and domestic offices. All of the leases are non-cancelable leases with no purchase options and their terms are greater than one year. Payments are due on a monthly basis. Ending payment dates range from fiscal years from 2002 through 2028. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases. The Department is responsible for maintenance on most leased property.

Rental expenditures for all operating leases aggregated approximately \$854,000 for the year ended June 30, 1999. The following is a schedule by years of future minimum rental payments at June 30, 1999 required under the noncancellable operating lease agreements.

<u>Year</u>	<u>Amount</u>
2000	\$ 726,033
2001	726,527
2002	726,527
2003	70,415
2004	54,505
Thereafter	<u>1,266,604</u>
Total	<u>\$3,570,611</u>

The Department paid the State Budget and Control Board approximately \$180,000 for vehicle rentals on year to year leases. These leases are generally renewed each year.

NOTE 11. CHANGES IN GENERAL LONG-TERM DEBT ACCOUNT GROUP:

The following is a summary of changes in general long-term debt for the year ended June 30, 1999:

	<u>Balances, July 1, 1998</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balances, June 30, 1999</u>
Compensated Absences and Related Benefits	<u>\$758,820</u>	<u>\$ 63,795</u>	<u>\$ 0</u>	<u>\$ 822,615</u>

Changes in accrued compensated absences and related benefits are shown at net since details to support gross increases and decreases are not available.

NOTE 12. OTHER FUND BALANCE RESERVATIONS:

Other fund balance reservations carried forward as part of the general fund were restricted in the amount of \$1,814,757. Included in this amount are the following: \$81,031 of aircraft rental and service charges to other state agencies as approved by Proviso 27.6 of the 1999-2000 Appropriation Act carried forward to replace time limit aircraft components; \$520,286 carried forward for administrative, data collection, credit analysis, cost-benefit analysis and reporting expenditures under the enabling act for the enterprise zones; \$1,024,096 of proceeds from aircraft sales carried over to be used for purchase of replacement aircraft under Proviso 27.15 of the 1999-2000 Appropriation Act; and \$134,846 from the South Carolina Department of Health and Environmental Control to fund the activities of the Recycling Market Development Advisory Council.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 13. TRANSACTIONS WITH STATE AGENCIES:

The Department has significant transactions with the State of South Carolina and various State agencies.

The Department remitted indirect cost recoveries received under various grants to the State General Fund. In addition, the Department remitted \$7,800 of hanger rental income pursuant to Proviso 27.10 of the 1998-99 Appropriations Act.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer and legal services from the Attorney General; collection of highway taxes levied in South Carolina Code of Laws Sections 12-27-1210, 12-27-1220, 12-27-1230, and 12-27-1240 by the Department of Revenue; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, audit services, grant services, personnel management, assistance in the preparation of the State Budget, property management and record keeping review and approval of certain budget amendments and other centralized functions.

The Department had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Significant payments were also made during the year to the State Accident Fund and the Employment Security Commission for worker's compensation and unemployment insurance, respectively.

The Department provided no material services free of charge to other State agencies during the fiscal year. Services provided for a fee include air transportation and sale of fuel and supplies. Revenues from other State agencies are recognized when goods or services are provided by the Department. Revenues from other State agencies are included in the "Aircraft rental" and "Sale of goods and services" revenue accounts. Significant revenues derived from other State agencies amounted to approximately \$165,000.

State agency members of the Coordinating Council for Economic Development voted not to assess dues to its members beginning with the fiscal year ended June 30, 1995. The Council determined that it would be satisfactorily funded with "highway taxes for State Economic Development". The Coordinating Council for Economic Development administers and has responsibility for the State Economic Development account. These revenues are collected and remitted to the Department by the Department of Revenue. The member agencies of the Council are the Department of Agriculture, the State Ports Authority, the Department of Revenue, the Department of Commerce – State Division of Development, the Department of Parks, Recreation and Tourism, Santee Cooper, the Jobs-Economic Development Authority, the State Board of Technical and Comprehensive Education, the State Budget and Control Board – Office of Research and Statistical Services, and the Employment Security Commission.

Pursuant to Sections 12-10-80 and 12-10-85 of the South Carolina Code of Laws, the Department received \$259,958 job development fees from the State Department of Revenue to be retained in the State Rural Infrastructure Fund. An additional \$422,847 was due to the Department from the State Department of Revenue as of June 30, 1999.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 14. PENSION PLANS AND OTHER EMPLOYEE BENEFITS:

Most of the employees of the Department are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division of the State Budget and Control Board, a public employee retirement system. Generally all state employees are required to participate in and contribute to the System as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides annuity benefits as well as disability, cost of living adjustment, death and group-life insurance benefits to eligible employees and retirees.

The Retirement Division maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Under SCRS employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service. The benefit formula for full benefits effective July 1, 1989, for the System is 1.82% of an employee's average final compensation multiplied by the number of years of creditable service. An early retirement option with reduced benefits is available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of 5 years of credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58 percent which included a 2.03 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the years ended June 30, 1999, 1998, and 1997 were approximately \$531,000, \$484,000 and \$440,000, respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the Department paid employer group-life insurance contributions of approximately \$10,600 in the current fiscal year at the rate of .15 percent of compensation.

The amounts paid by the Department for pension and group-life benefits are reported as employer contributions expenditures within the applicable program.

Article X, Section 16 of the South Carolina Constitution requires that all state operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employee/employer contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**NOTE 14. PENSION PLANS AND OTHER EMPLOYEE BENEFITS: (CONTINUED)**

The Systems do not make separate measurement of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the retirement plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Department's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Department recognizes no contingent liability for unfunded costs associated with participation in the plan.

At retirement, employees participating in the SCRS may receive additional service credit for up to 90 days for accumulated unused sick leave.

NOTE 15. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the Annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time employees and certain permanent part-time employees of the Department are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State funded benefits.

Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget & Control Board for all participating State retirees, except the portion funded through the pension surcharge, and provided from other applicable revenue sources of the Authority for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 20,100 State retirees met these eligibility requirements as of June 30, 1999.

The Department recorded employer contribution expenditures applicable to these benefits in the amount of approximately \$371,000 for active employees for the year ended June 30, 1999. As discussed in Note 14, the Department paid approximately \$142,000 applicable to the 2.03% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Information regarding the cost of insurance benefits applicable to the Department retirees is not available. By State law, the Department has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999**

NOTE 16. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k) and 403(b), administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Employees may withdraw the current value of their contributions when they terminate State employment. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans had to comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

NOTE 17. COMMITMENTS:

At June 30, 1999, the Department had an open letter of credit with the Deutsche Bank of Frankfurt. This letter of credit is to secure rental of the Frankfurt office and is in the amount of 37,430 DM or 19,769 U.S. dollars. The letter of credit expires April 15 of every year. No draws had been made on this letter of credit at June 30, 1999.

The Department engages in a variety of development projects. All project commitments are to local government entities which are responsible for contracting with specific vendors to achieve the project objectives. The commitments also include the total amount of State Economic Development program funds contractually committed to development projects.

Outstanding commitments to be funded from State capital improvement bonds total approximately \$1,423,583. In addition, the Department has committed to expend \$68,739 for York County Airport improvements and \$4,003,352 under various state economic development projects.

NOTE 18. RISK MANAGEMENT:

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for the deductibles.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 18. RISK MANAGEMENT: (CONTINUED)

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insurance plan except dependent and optional life premiums which are remitted to commercial carriers.

The Department and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts; and
5. Natural disasters.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, and automobile liability. The IRF's rates are determined actuarially.

The Department obtains up to \$10,000 per occurrence coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The Department also purchases insurance through a commercial insurer for aircraft coverage, including bodily injury and property damage insurance up to \$10 million per occurrence and aircraft physical damage insurance based on the insured value of each aircraft maintained by the Department.

The Department has recorded insurance premium expenditures in the applicable program expenditure categories of the general fund.

The Department has not transferred the portion of risk of loss related to insurance policy deductibles, and policy limits to a State or commercial insurer. The Department reported no expenditures in the current year for actual claims payment and costs related to such retained risks of loss.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 18. RISK MANAGEMENT: (CONTINUED)

In management's opinion, claims losses in excess of insurance coverage are unlikely, and if incurred, would be insignificant to the Department's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year end. Therefore, no loss accrual has been recorded.

NOTE 19. OPERATING TRANSFERS:

The Department transferred \$60,000 of Economic Development Coordinating Council funds from the Special Revenue Fund to the General Fund to use for the development of the South Carolina Infrastructure-Economic Development Planning Project as provided for in Proviso 27.3 of the 1998-1999 Appropriations Act. In addition, \$300,000 was transferred from the Special Revenue Fund by the Coordinating Council for Economic Development to the General Fund to be used for the council's administrative costs.

NOTE 20. CONTINGENT LIABILITIES:

The various federal programs administered by the Department for the fiscal year 1999 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Department believes that any such amount in the aggregate would not have a material adverse effect on the financial position of the Department. Furthermore, there is no information to indicate that a liability should be recorded at fiscal year-end.

NOTE 21. UNFAVORABLE BUDGET VARIANCE:

The unfavorable budget variance in other budgeted funds – allocations to other entities occurred because the federal government drew down federal funds under a letter of credit and used it to make a payment to another entity. This transaction was not recorded until the Department was balancing its letter of credit balances at which time the State's books were closed and the Department could not request a budget transfer.

**REQUIRED SUPPLEMENTARY INFORMATION – YEAR 2000 ISSUE (UNAUDITED)
JUNE 30, 1999**

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the Year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features – such as environmental systems, elevators, and vehicles – as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the Department's direct control but also the systems of other entities with which the Department transacts business. Some of the Department's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operations of the Department.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Department is or will be Y2K ready, the Department's remediation efforts will be successful in whole or in part or that parties with whom the Department does business will be year 2000 ready.

The Department has used internal staff to conduct various assessments of Y2K issues. A project plan for remediation of mission critical and other department systems, including timelines, has been developed, costs determined and resources allocated. The Department's Y2K plan includes multiple review steps to achieve compliance in all critical areas. The Department has projected that Y2K compliance will cost an estimated \$18,000 and will be funded from internal budgets. The Department does not anticipate any additional funding needs to correct Y2K issues.

Work to address the year 2000 issue with respect to each system falls predominantly within one of the following stages of work:

1. Awareness/Assessment stage – Establish a budget and project plan for dealing with the year 2000 issue. Identify the systems and components for which year 2000 work is needed. Identify resources needed to complete work.
2. Remediation stage – makes changes to systems, upgrade or replace equipment.
3. Validation/Testing stage – Validate and test changes made during the Remediation stage.
4. Implementation stage – Replace non-compliant software and hardware with compliant software and hardware.

At June 30, 1999, the Department had completed the awareness/assessment, remediation, validation/testing and implementation stages for our mission critical systems which are Financial Management, Payroll, Purchasing, Personal Computers, Workstations, Servers, Hubs, Routers, and other network components, Telephones, Office Software, Consolidated Aviation Management System, Consolidated Agency Management System, Air Transport Pilot Navigator, and Business Aircraft Records and Tracking Systems .

As of January 7, 2000, the Department had not encountered any problems related to the Y2K issue.

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 1999**

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures Subrecipients</u>
U.S. Department of Housing and Urban Development Direct Program: Community Planning and Development Community Development Block Grants/State's Program	14.228	\$30,941,469	\$29,921,099
U.S. Department of Transportation Direct Program: Federal Aviation Administration Airport Improvement Program	20.106	114,165	
U.S. Department of Labor Employment and Training Administration Passed through from South Carolina Employment Security Commission: Job Training Partnership Act	17.250	53,100	
Appalachian Regional Commission Direct Programs: Appalachian Supplements to Federal Grant-in-Aid	23.002	165,434	
Appalachian State Research, Technical Assistance and Demonstration Projects	23.011	36,307	
Department of Energy Direct Program: Energy Grant	N/A	117,500	
		<u>\$31,427,975</u>	<u>\$29,921,099</u>

The Schedule of Expenditures of Federal Awards has been prepared on the cash basis method of accounting.



CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of South Carolina Department of Commerce (the Department) as of and for the year ended June 30, 1999, and have issued our report thereon dated January 7, 2000 which was qualified because of the omission of the Department's enterprise funds. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risks that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Governor, the Secretary of Commerce, management of the Department and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Laban, PA

Columbia, South Carolina
January 7, 2000

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO ITS MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of South Carolina Department of Commerce (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 1999. The Department's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 1999.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major

federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Governor, the Secretary of Commerce, management of the Department and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Lalan, PA

Columbia, South Carolina
January 7, 2000

SOUTH CAROLINA DEPARTMENT OF COMMERCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 1999

SUMMARY OF AUDITOR'S RESULTS

1. A qualified opinion dated January 7, 2000 on the financial statements of the Department for the year ended June 30, 1999 was issued.
2. No reportable conditions relating to the internal control over financial reporting were noted during our audit of the financial statements.
3. No reportable conditions in internal control over major programs were noted.
4. No instances of noncompliance which were material to the financial statements were disclosed during the audit.
5. An unqualified opinion on compliance for the major program dated January 7, 2000 was issued.
6. There were no findings disclosed during the audit that are required to be reported under Section .510(a) of OMB Circular A-133.
7. The major program of the Department is the Community Development Block Grant – CFDA #14.228.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$942,839.
9. The Auditee was not determined to be a low risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

None reported

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.

**STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED JUNE 30, 1999**

During our current audit, we reviewed the status of corrective action taken on the finding we reported in our report on the financial statements of the Department dated February 1, 1999, resulting from the audit of the financial statements for the year ended June 30, 1998. We found that adequate corrective action has been taken on the findings regarding the removal of fixed assets from its accounting records.